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Mr. Chairman and Members of the Committee:

Thank you for inviting me to speak about the implications of stock investing for the Social Security program. Social Security faces a long-term financing shortfall-by 2029, it will only be able to pay about 75 percent of promised benefits. In order to address this shortfall, investing in the stock market has been proposed along with other reform options. Stock investing could potentially improve the investment earnings on retirement funds. Some reform proposals would fundamentally alter Social Security's structure to allow individuals to invest on their own behalf. Others would maintain the current program structure, permitting the government to invest some of Social Security's funds in the stock market. Regardless of ownership, investing in stocks or other assets outside of the government would be a new concept for Social Security.

You asked me to discuss the government stock investing option, the subject of a report we just completed for you. More specifically, I would like to focus my remarks on (1) the implications of government stock investing for the Social Security trust fund, (2) the impact of stock investing on the federal budget and national saving, and (3) implementation issues related to selecting and managing a stock portfolio that could affect the degree of government involvement in corporate affairs. Throughout this discussion, I will also touch upon important ways in which the government stock investing approach contrasts with the alternative of individual accounts.

Our report on government stock investing did not address any specific Social Security reform proposals. Instead, as discussed with Committee staff, we studied changing trust fund investment policy in isolation from any other program changes in Social Security. Although my testimony is based primarily on our report on government stock investing, it also draws on other work we have done on Social Security reform and budget issues.

In summary, government stock investing is a complex proposal that has potential consequences for Social Security, the federal budget, and national saving. It also differs in key ways from proposals to establish individual accounts.

For the Social Security trust fund, government stock investing offers the prospect of higher returns but, by itself, is unlikely to solve the program's long-term financial imbalance, and it would be accompanied by greater risk. The key distinction between stock investing through the government and through individual accounts is that, under government stock investing, the risks and returns would be shared collectively through the government rather than borne individually. More generally, individual accounts proposals would alter Social Security's current structure and scale back the income redistribution aspect of the current program.

From a budget perspective, shifting a portion of trust fund assets into the stock market would raise deficits or diminish surpluses in the short term but would not significantly affect national saving. While government stock investing by itself has no direct effect on saving, it indirectly could prompt actions to raise saving by revealing the size of federal deficits excluding Social Security's temporary surpluses.

Implementing a government stock investing proposal would raise issues about stock selection, administrative costs, and shareholder voting rights that, conceptually, do not pose major obstacles. However, some of these issues could raise concerns about increased government influence over the

private sector.

BACKGROUND

The Social Security system is largely a pay-as-you-go system under which each current working generation pays for the benefits of the retired generation. Under a pure pay-as-you-go system, annual tax revenues roughly match each year's benefits, while allowing for a contingency reserve to weather short-term economic downturns. However, as a result of previous financing reforms, Social Security currently receives more cash revenue each year than it needs to pay current benefits, which is building up the trust fund's balance beyond the amount needed as a contingency reserve.

By law, the Social Security trust fund currently invests solely in U.S. government securities—a policy that dates back to the program's origin in 1935 and is intended to ensure the safety of the trust fund's assets. Interest on the trust fund's Treasury securities is credited in the form of additional securities which add to the trust fund's balance available to finance future benefits. By 2012, Social Security's annual tax revenues are expected to be insufficient to cover its benefit payments. To cover the cash shortfall, the trust fund will begin drawing on the Treasury, first relying on its interest income and eventually drawing down its assets. The Treasury will need to raise the required cash through some combination of borrowing from the public, spending cuts in other federal programs, or revenue increases.

A number of Social Security reform proposals would make the trust fund buildup even larger and other proposals would create individual accounts that would also build up the size of retirement funds. The prospect of building up retirement funds has brought increased attention to stock market investing. On either publicly or privately held retirement funds, potentially higher investment earnings could help provide retirement income and complement other Social Security reforms. The larger the retirement funds, the more investment earnings they would have and the more the rate of return on investments matters. Under current policy, the buildup occurring in Social Security is relatively small in comparison to the program's expected future costs; therefore the rate of return received on investments has been less important.

To assess the implications of changes in investment policy and other reforms, it is important to understand how Social Security fits within the federal budget. Although the Social Security trust funds are technically excluded from the budget, their finances contribute to the government's impact on the economy. Therefore, Social Security is included, along with all other federal programs, in the commonly used "unified" budget measure. The unified budget is the means used to measure the government's current draw on financial markets. However, in considering the long-range implications of federal policies, it is also useful to consider the impact that Social Security's temporary surplus has on the government's unified budget. By reducing the Treasury's need to borrow from the public to finance government spending, Social Security's current cash surplus partially offsets the deficit in the rest of the government's accounts.

Social Security has an important influence on the government's overall fiscal position, which, in turn, affects national saving, a key determinant of long-term economic growth. Raising saving and investment levels above today's relatively low levels would improve the long-term productivity of the economy, thereby boosting economic growth. A more robust economy would make it easier for future workers to meet the dual challenges of paying for the baby boomers' retirement and achieving a rising standard of living for themselves.

Social Security reform proposals that permit stock investing use one of three basic approaches. In the first, the government would own and control the Social Security trust fund's investments. In the second,

the government would manage individually owned accounts. Such accounts might resemble the federal employees' Thrift Savings Plan (TSP). For TSP, Congress established several indexed investment options, and TSP participants allocate their balances among these options. In the third approach, individuals could control and manage their own accounts with greater discretion over how to invest them. These accounts might resemble existing individual retirement accounts (IRAs).

BALANCING RETURNS AND RISKS

Stock investing is one option to increase the trust fund's revenue but, by itself, it is not the solution to Social Security's financing problem. Higher investment returns could extend Social Security's long-range solvency somewhat, but their effectiveness is limited as long as the program remains largely pay-as-you-go. Also, in exchange for the prospect of higher returns, the Social Security trust fund would have to take on greater risk. This risk/return trade-off would also apply to individual accounts proposals, but it would apply to each worker individually rather than to all workers collectively as under government stock investing.

In our report, we developed two scenarios to illustrate potential effects on the trust fund of investment in the stock market assuming no other program changes. Under our more aggressive scenario, the trust fund would invest both its projected annual cash surplus and interest in the stock market, while maintaining a contingency reserve of special Treasury securities equal to at least the next year's expected expenditures. Under our alternative scenario, the trust fund would invest only the cash surplus, and Social Security's cash deficit, beginning in 2012, would be financed from stock earnings and sales. At our request, the Social Security Administration's (SSA) Office of the Chief Actuary simulated the potential outcomes of our two scenarios using the Social Security Trustees' 1997 intermediate actuarial assumptions and the 1994-1996 Advisory Council on Social Security's assumptions about stock returns and administrative costs. (See attachment I for more details.) The results of these simulations illustrate some outcomes associated with two investment alternatives; they should not be interpreted as forecasts and are not intended to represent the full range of possible outcomes for the Social Security trust fund.

Higher investment returns would allow the trust fund, even without other program changes, to pay benefits longer before depleting its assets. Under the more aggressive scenario, assuming the historical average stock return, the trust fund's exhaustion could possibly be delayed by about a decade, from 2029 to 2040. This potential delay well into the baby boomers' retirement years would result only from the Social Security trust fund investing aggressively in the stock market. The trust fund would invest more than 70 percent of its assets in the stock market, which would be a dramatic shift from investing solely in Treasury securities. Under the cash surplus scenario, still assuming the historical average return, the possible delay in the trust fund's exhaustion would be only 3 years. The possible extension of the trust fund's solvency resulting from any stock investment scenario would be significantly shorter if the future stock returns are lower than the historical average of 7 percent after inflation." Moreover, if the return on stocks over the next 20 or 30 years averages less than the expected return on Treasury securities, the trust fund would be exhausted sooner than in 2029, exacerbating Social Security's long-term financial imbalance.

The only way for the Social Security trust fund to earn the higher returns possible with stock investing is to take on greater risk. The trust fund would be particularly vulnerable to losses in the event of a general stock market downturn if stock investing is implemented in isolation from other program changes. Just as it will have to draw down its Treasury securities to cover Social Security's cash shortfall, the trust fund will have to liquidate its stocks to pay benefits. Riding out a stock market downturn could be difficult for the trust fund as it faces growing numbers of retirees. The more the trust fund is counting on stock sales to raise cash, the greater its vulnerability in the event of a general market downturn. In contrast to our scenarios, reform packages that include stock investments along with other changes to

Social Security typically envision that the Social Security trust fund would hold its stock portfolio and mainly draw on its stock earnings. In this context, the trust fund would be less vulnerable to the risk inherent in liquidating stocks to pay promised benefits.

Caution is warranted in counting on future stock returns in designing Social Security reform. Historically, returns on stocks have exceeded returns on Treasury securities over the long term, averaging about 7 percent after inflation. However, an average over nearly a century obscures the reality that stock returns fluctuate substantially from year to year. Over the past 70 years or so, stock returns were negative in nearly 1 out of 4 years. There is no guarantee that investing in the stock market, even over 2 or 3 decades, will yield the long-run average return. However, even if future stock returns are lower than the historical average of 7 percent, the conventional wisdom is that stock returns would be higher than those on Treasury securities over the long term. How much higher is uncertain. Indeed, investing in the stock market would not ensure a higher return than might be possible investing in bonds. The stock market could drop and stay depressed for a prolonged period of time.

With government stock ownership, the risk and potential returns would be shared collectively workers and beneficiaries. As shown in our simulations, any gain would extend the trust fund's solvency and thus reduce the size of benefit cuts or tax increases that would otherwise be required. On the other hand, any shortfall might require further benefit cuts or tax increases. The distribution of any gains or losses across workers and beneficiaries would ultimately depend on the structure of the Social Security program and any changes to it.

For any system of individual accounts, the risk of stock investing would be borne by those individuals who chose to invest in the stock market. Reform proposals that use government managed accounts would constrain investment choices to reduce the risks that individuals could take and, thereby, could also moderate their returns. In contrast, under proposals that place few restrictions on investment choices, investors could take much greater risks and potentially earn greater returns. In either case, individuals would benefit directly from any higher returns, and their retirement income would vary depending on their investment decisions and the timing of their investments. Some individuals could do very well under such an approach, but others could experience a significant drop in their expected retirement income. Those who are reluctant to invest in the stock market, such as appears to be the case with lower income individuals, may not benefit from the potentially higher returns of stock investing.

Focusing on the risks associated with stock investing in isolation ignores a significant impact that individual accounts proposals would have on other risks individuals would face. Individual accounts proposals would fundamentally alter the role of Social Security as a social insurance program and focus instead on providing a vehicle for retirement savings. Under a social insurance model, the government tries to help insure adequate income by largely taking responsibility for a wide variety of risks that individuals face. They face some risks individually, such as how long they will be able to work, how long they will live, whether they will be survived by spouses or dependents, and how much their lifetime earnings will be. They also face some risks collectively, such as the performance of the economy and inflation. Social insurance tends to minimize such risks to individuals. In the process, Social Security redistributes income in a variety of ways for example from high to low earners-and lowers the rate of return some workers earn on their retirement contributions. In contrast, under an individual retirement savings model, individuals could have greater freedom and control over their income and have more to gain or lose from their own choices but they could face many of these risks alone.

EFFECTS OF GOVERNMENT STOCK INVESTMENTS ON THE FEDERAL BUDGET AND NATIONAL SAVING

In the short term, under current budget scoring rules, government stock investing would increase

reported budget deficits or decrease budget surpluses because stock purchases would be treated as outlays. Each dollar invested in stocks is a dollar no longer available to the Treasury to finance other government spending or reduce debt held by the public. Depending on how much the trust fund were to invest in stocks, the change in the reported deficit/surplus could exceed \$100 billion annually. If, after accounting for this effect the government were in deficit, the Treasury would have to borrow more from the public, unless action were taken to reduce other spending or raise revenues. If, instead, the government were running a budget surplus, the Treasury would have less cash available to reduce debt held by the public. To the extent that individual accounts proposals redirect existing payroll tax revenues into private accounts, the budgetary impact would be similar to the impact of government stock investing.

Over the long term, the impact of government stock investing on reported budget deficits/surpluses could largely be neutral. While stock purchases would mean money flowing out of the government, any stock sales would bring money into the government. So, when Social Security begins running cash deficits in the future, it could sell stocks to finance benefits, rather than drawing on the Treasury. This approach would result in smaller future budget deficits or larger future budget surpluses than under current policy. This longer-term improvement could offset the near-term deterioration in the deficit/surplus. If stock earnings were to exceed any increase in federal borrowing costs that might result from a stock investing policy, there could be at least a slight benefit for the budget. However, any improvement in the government's position would result from capturing a portion of stock returns that would otherwise have accrued to private investors.

The long-term impact of individual accounts proposals on budget deficits/surpluses would be different than the impact under government stock investing. Money would now out of the government to fund the accounts, but it would not flow back in because the accounts would be owned by individuals, not the government. Recognizing this dynamic, individual accounts proposals typically would reduce the size of the guaranteed benefit provided by Social Security, which would reduce future government spending. The net outcome on future deficits/surpluses would depend on the specific provisions of the individual accounts proposal.

Despite the budget reporting effects, government stock investing would have no significant impact on national saving. Although any federal borrowing from the public to finance stock purchases would absorb money from capital markets, the stock investments themselves would add money to the markets, offsetting the effect of the additional borrowing. This exchange between the government and the financial markets would constitute an asset shuffle among investors-the Social Security trust fund would buy some stocks from private investors and private investors would buy more Treasury securities from the government. This asset shuffle would likely be accompanied by changes in bond and stock prices that might, to some extent, undercut the government's expected gain on stock investments and increase the government's cost of borrowing. The magnitude and duration of these price changes in the stock and bond markets is uncertain and could be small.

The fact that government stock investing does not significantly affect saving is important. It means that any higher returns earned by the Social Security trust fund would be offset by lower returns earned by other investors, who would hold fewer stocks and more bonds in their portfolios. A similar result could apply to some individual accounts proposals. Redirecting a portion of current payroll taxes from the Social Security trust fund into individual accounts, without any other changes in Social Security benefits or revenues, would have no appreciable effect on national saving. Some individual investors would undoubtedly achieve higher returns by investing in the stock market but, without any additional resources available for investment, others would receive lower returns. In short, simply altering the ownership of financial assets among investors would not boost national saving and long-term economic growth.

While stock investing, by itself, does not have a significant effect on national saving, the higher reported budget deficits or lower surpluses could indirectly lead to fiscal changes that could boost saving. By reducing the Treasury's available cash, stock investing would make more visible the underlying condition of the government's finances excluding the Social Security surplus. Policymakers could react to a higher unified deficit by cutting spending and/or raising taxes. Such fiscal restraint could contribute to a higher level of national saving. Or, if instead of contributing to a unified deficit, stock investing were to reduce an anticipated unified surplus, policymakers might be reluctant to enact tax cuts or additional spending. In this case, fiscal restraint might not promote higher saving, but it would avoid policy actions that could cause saving to decline.

Though stock investing could help highlight the budget shortfall that exists when Social Security's surplus is excluded, it represents a circuitous way of essentially duplicating an existing measure—the on-budget deficit. If policymakers wanted to take actions to boost national saving, they certainly could do so directly by running annual surpluses in the unified budget and devoting the surplus funds to reducing the level of outstanding debt held by the public. If the government ran a unified budget surplus equal to Social Security's cash surplus, the Treasury would no longer need to rely on Social Security revenues to finance federal spending on other activities. While attaining and sustaining surpluses could prove extremely challenging, such a policy would strengthen the fiscal position of the government and, by promoting higher saving, better position the economy to handle the baby boomers' retirement costs.

IMPLEMENTATION ISSUES ASSOCIATED WITH GOVERNMENT STOCK INVESTING

Government stock ownership, and to a lesser extent government management of individual accounts, would raise certain implementation issues, the most significant of which are stock selection and shareholder voting rights. Conceptually, these issues do not pose major obstacles. However, they could prove controversial to resolve because critics have expressed concern about increased government involvement in financial markets and corporate affairs.

For stock selection, proponents of government stock investing typically recommend investing in a broad-based stock index. An indexing approach could reduce (1) the costs of selecting and managing a stock portfolio, (2) the exposure to some investment risks, and (3) the likelihood of the government controlling the corporate affairs of individual companies.

Unlike active investment managers, an index manager generally does not incur high expenses in the process of doing research and trading individual stocks of companies with profit potential. As a result, the costs of managing an indexed portfolio tend to be significantly lower than an actively managed portfolio. Most of the cost of managing an index fund is incurred maintaining thousands of individual accounts. In contrast, the government, as a single investor, would incur negligible costs as a percentage of its assets. Therefore, investing collectively through the government would result in significant administrative savings compared to investing through individual accounts. However, individual accounts' proponents argue that administrative costs would be consistent with the costs of existing private retirement investment accounts.

Given that a broad-based indexed portfolio would represent many different sectors of the economy and individual companies, the risk is greatly reduced that any loss related to an individual firm or group of companies would greatly affect the overall performance of the government's portfolio. However, stock index investing would be riskier than the government's current investment in special Treasury securities. Indexing across the stock market does not reduce the government's risk of loss in the event of a general stock market downturn.

A broad-based indexing strategy would reduce the possibility of owning a significant percentage of the stocks of an individual company, thereby reducing the likelihood of influencing its corporate affairs. However, indexing does not eliminate the possibility that there could be pressure for the government to include or exclude companies based on nonfinancial objectives. Under individual accounts proposals, these pressures would probably be either less significant or non-existent. Even if government were responsible for selecting the investment options for individual accounts, it might likely choose widely recognized indexes like it did for TSP.

The issue of how to handle stock voting rights also must be addressed. Critics of government stock investing have expressed concerns that the government's right to vote its sizable number of shares would allow it to influence corporate decisions. To blunt such concerns, the government's stock voting rights could be restricted by statute, but any restriction would need to be designed carefully. For example, simply prohibiting the government from exercising its voting rights would favor other stockholders or investment managers by effectively increasing their voting rights.

These issues are somewhat different for individual accounts, depending on the structure of the accounts. Under a proposal for individual accounts managed centrally through the government, stock voting would likely be delegated to external investment managers (one of the options under government stock investing). Concerns about shifting power into the hands of a few investment managers selected by the government could be diminished by spreading stock investments among many different managers. Under an alternative type of individual accounts proposal where individuals are free to invest funds as they wish, the government would have no influence over stock voting.

OBSERVATIONS

In the report we issued to you today, we looked in detail at investing a portion of Social Security trust fund assets in the stock market. In contrast, alternative proposals would allow individuals to invest in the stock market. I would like to conclude with four key observations about stock investing through the government and through individual accounts.

First, risk would be shared collectively under government stock investing, but individually with individual accounts. By the same token, any higher returns would also be distributed differently. Under government stock investing, the distribution of returns among taxpayers and beneficiaries would depend on the structure of the Social Security program and any changes to it. Under individual accounts, the distribution of any higher returns would vary according to each individual's investment choices and outcomes. Also, the degree of risk and size of potentially higher returns would depend on the range of investment choices permitted by the government.

Second, simply shifting assets from the trust fund into the stock market, either through the government or individual accounts, does not by itself increase national saving. Stock investing could indirectly prompt actions to raise saving by revealing the size of federal deficits excluding Social Security's temporary surpluses. However, saving could increase directly if reforms further build up either public or private retirement funds. Such a build-up could result from either increasing retirement contributions or decreasing benefits. However, even then saving would not increase if either the government or individuals responded by reducing saving elsewhere.

Third, administrative costs for government stock investing would be significantly less than for individual accounts. Costs as a share of assets are generally greater for smaller accounts than for larger ones, though stock indexing could reduce costs for both the government and individuals. Also, proponents of individual accounts believe that the cost issue does not outweigh the issues associated

with the government owning and managing a sizable stock portfolio.

Fourth, critics of government stock investing have cited its potential to increase government influence over the private sector. Stock investing by the government could affect financial markets and raises the issue of how to handle stock voting rights on a sizable portfolio. Under individual accounts, such concerns would be reduced or eliminated. The government would only exert influence to the extent that it defines individuals' investment options and controls shareholder voting rights.

On a broader level, individual accounts proposals would fundamentally change Social Security in ways that are not directly related to permitting stock investment. Some proposals would substantially reduce the role of Social Security in helping ensure adequate income, sharing a variety of risks, and redistributing income. Other proposals would do so to a somewhat lesser degree.

Finally, although stock investing could delay the trust fund's exhaustion, it cannot fix Social Security by itself. Restoring the program's long-term solvency will still require difficult choices about benefit cuts and tax increases.

ATTACHMENT I

ASSUMPTIONS USED IN ESTIMATING HOW

HIGHER RETURNS AFFECT THE SOCIAL SECURITY TRUST FUND

For our report on government stock investing, we used simulations to illustrate how changing the investment policy can affect the future outcome for the Social Security trust fund. Simulations are useful for comparing alternative investment policies within a common framework but should not be interpreted as forecasts given the range of uncertainty about the amount and timing of any Social Security stock investments as well as about future stock returns and potential economic changes in response to government stock investing. While our report discussed potential stock investment alternatives, it did not suggest any particular course of action, since the choice of the most appropriate investment policy is a decision to be made by the Congress and the President.

We examined the potential effect of government stock investing in isolation from other changes in the Social Security program. At our request, the Social Security Administration's (SSA) Office of the Chief Actuary simulated the potential effect of higher returns from stock investing on the trust fund using the Social Security Trustees' 1997 intermediate assumptions about future program revenues and expenditures as well as their demographic and economic assumptions. We did not audit or validate SSA's actuarial projections.

According to the Trustees' 1997 intermediate estimates, the trust fund expects to collect roughly \$30 billion more in cash than is needed to pay benefits each year from 1998 until 2008 and continue to receive some excess cash until 2012. In addition, the interest credited on the trust fund's special Treasury securities was roughly \$40 billion in 1997. We assumed that the trust fund would continue to hold a contingency reserve of special Treasury securities equal to at least 100 percent of the next year's expected expenditures, given that stock prices are highly variable in the short term. Given that the trust fund's balance now exceeds 150 percent of its annual expenses, we assumed that the Social Security trust fund could begin investing in the stock market in 1998. Under the Trustees' intermediate projections, the trust fund does not anticipate that it would need to tap its investment income and assets for nearly 15 years. By 2012, assuming no other program changes, Social Security's tax revenue will be insufficient to pay benefits each year, and the trust fund will have to finance the program's cash deficit

by drawing on its investment income and eventually depleting its assets.

The potential gain from stock investing would depend on what future stock returns are. In the simulations, we used the historical average real yield on stocks assumed by the 1994-1996 Advisory Council on Social Security ("the Advisory Council") in estimating future stock performance. The 7 percent long-term historical average return on stocks is 4.3 percentage points more than the ultimate 2.7 percent yield on special Treasury securities under the Trustee's 1997 intermediate assumptions. In light of the uncertainty about future stock returns, we also tested a stock return which is 1 percentage point lower than the historical average. This alternative return is intended only to demonstrate that stock investment simulation results are sensitive to the rate of return assumed and does not represent the worst or most likely return outcome for the Social Security trust fund. We also used the Advisory Council's assumption that the trust fund's annual administrative costs would be 0.5 basis points. Administrative costs would reduce the spread between the real yields on stocks and Treasury securities by 0.005. Based on the Trustees' 1997 intermediate assumption for inflation, the ultimate nominal yield on special Treasury securities would be 6.29 percent. Thus, the ultimate nominal yields on stocks would be 10.74 percent (assuming a 7 percent real yield) and 9.70 percent (assuming a 6 percent real yield).

The potential gain from stock investing would also depend on how much the Social Security trust fund invests in the stock market. We developed two stock investment scenarios: (1) an aggressive scenario investing both Social Security's future annual cash surplus and interest in the stock market, while maintaining a contingency reserve of special Treasury securities equal to at least 100 percent of the next year's expected expenditures, and (2) a more conservative scenario investing only Social Security's cash surplus. Under the aggressive scenario, the trust fund would hold its balance of special Treasury securities constant as of the beginning of 1998. From 1998 until 2008, all of Social Security's cash surplus and the interest on its special Treasury securities would be invested in the stock market. Beginning in 2008, the trust fund would need to begin investing more in Treasury securities to maintain a 100 percent reserve level. Under the cash surplus scenario, the trust fund would invest in the stock market until 2012 and then it would begin drawing on its stock earnings and sales to finance Social Security's cash deficit. In both scenarios, stock earnings are reinvested in the market unless the trust fund needs cash to pay benefits or to invest in Treasury securities to maintain its contingency reserve.

Table 1. I shows, under current law and the two stock investment scenarios, the years when (1) the trust fund would be exhausted, (2) its asset level would fall below 100 percent of expected annual expenditures, and (3) its asset level would fall below 150 percent. These simulation results illustrate some outcomes associated with two alternative investment policies. These results should not be interpreted as forecasts and do not represent the full range of possible outcomes for the Social Security trust fund.

Table 1-1: Key Dates Under Current Law and Two Stock Investment Scenarios

	Trust fund exhausted	Assets less than 100 percent of annual outgo	Assets less than 150 percent of annual outgo
Current law	2029	2025	2022
Aggressive scenario			
7 percent real yield	2040	2036	2034
6 percent real yield	2035	2032	2029

Cash surplus scenario			
7 percent real yield	2032	2028	2026
6 percent real yield	2031	2027	2025

Source: SSA, Office of the Chief Actuary.

RELATED GAO PRODUCTS

Social Security Financing: Implications of Government Stock Investing for the Trust

Fund, the Federal Budget, and the Economy (GAO/AIMD/HEHS-98-74, April 22, 1998).

Budget Issues: Long-Term Fiscal Outlook (GAO/T-AIMD/OCE-98-83, February 25, 1998).

Social Security: Restoring Long-Term Solvency Will Require Difficult Choices (GAO/T-HEHS-98-95, February 10, 1998).

Social Security Reform: Implications for Women's Retirement Income (GAO/HEHS-9842, December 31, 1997).

Social Security Reform: Demographic Trends Underlie Long-Term Financing Shortage (GAO/T-HEHS-98-43, November 20, 1997).

Budget Issues: Analysis of Long-Term Fiscal Outlook (GAO/AIMD/OCE-98-19, October 22, 1997).

Retirement Income: Implications of Demographic Trends for Social Security and Pension Reform (GAO/HEHS-97-81, July 11, 1997).

Federal Debt: Answers to Frequently Asked Questions (GAO/AIMD-97-12, November 27, 1996).